



High Fuel Costs Driving Down Travel Demand

Issue 46: July 2008

*The Tourism Intelligence Bulletin monitors the tourism industry around the world.
This issue features tourism intelligence gathered in May and June 2008.*

Bulletin Highlights

Tourism Overview: North America

- Canadian summer travel intentions gearing down: The sticker shock of rising pump prices and the growing impact of fuel costs on household budgets are detracting significantly from Canadian travel plans, according to the latest Canadian Travel Intentions Survey by The Conference Board of Canada. Vacation plans for all destinations registered a substantial decline, but the largest drop in plans appeared to be for overseas travel. (See page 4.)
- Domestic travel to remain flat over the near term: The latest travel indicators suggest the domestic travel market will not grow at all over the short term, and may even decline slightly. As gasoline nears \$1.50 per litre, Canadians are expected to economize on automobile travel. The impact of high fuel prices on household finances and weaker economic conditions are also taking their toll on consumer confidence. (See "Domestic Travel," page 10.)
- U.S. vacation intentions continue to weaken: U.S. travel intentions fell significantly in June, dropping below the 30-year low hit in April, according to the latest Consumer Confidence Survey report by the U.S. Conference Board, Inc. American consumer confidence also deteriorated further in June, falling to dismally low levels that reflected a deeply pessimistic outlook for the U.S. economy. (See page 5.)
- Dim outlook for U.S. travel volumes: Forecasts suggest there will be a slight decline in U.S. leisure travel this summer. Escalating gasoline prices and concerns about the economy are prompting many Americans to travel less. Others are adjusting their travel plans by choosing domestic destinations over outbound ones, trading down in their choice of hotels, reducing shopping and entertainment spending, and staying closer to home. (See page 5.)
- Corporate air travel demand weakening: Fewer international passengers are travelling in premium classes, suggesting that business travel trends are softening. North American airlines have been reporting decreasing numbers of passengers travelling internationally in business class and first class seats since the

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beginning of this year. (See page 6.)

- Canadian air travel demand holding up, but not for long: Although air travel demand appears to be holding steady heading into the busy summer season, these trends are not expected to last for long. Soaring jet fuel prices are forcing airlines to pass higher fuel costs on to consumers through higher ticket prices. But because many tickets for summer travel were purchased before the increases went into effect, the full impact of climbing airfares is not expected to begin affecting demand until summer is over. (See page 6.)
- Canadian daily rates and revenues continue to climb: Steady demand for Canadian accommodations combined with slower growth in hotel room supply continues to bolster growth in daily room rates and revenues. However, there are signs that lodging demand is easing. Although the outlook for the summer travel season is still positive overall, hotel operators expect travellers to be more price sensitive and stay closer to home this year. They have also noticed a trend of shorter stays at their hotels. (See page 8.)

Tourism Overview: International

- U.K. travel suppliers report robust demand: Major U.K. travel companies indicate there is strong demand for summer bookings, especially for medium- and long-haul destinations. Capacity in the market has been cut back substantially since last year, allowing prices to rise. Travel companies are also reporting much lower volumes of summer product left to sell, reducing the level of last-minute discounting compared with last year. Reports suggest U.K. travellers are not giving up their main summer vacation, although they may cut back on additional trips because of growing concerns over economic conditions. (See page 12.)
- Credit crunch may discourage some travel spending: Recent surveys suggest that tighter finances are prompting some U.K. travellers to reduce or cancel travel plans this summer. Still, one study suggests a significant number of Brits are prepared to pare down their budget in other areas to ensure they have the funds to take a summer holiday. (See page 13.)
- French e-commerce trends holding strong: Growth in e-commerce in France and the rest of continental Europe is not slowing down as quickly as it is in the U.K. and the United States, according to eMarketer.com. A recent forecast suggested e-commerce transactions would grow 30 per cent in France this year, only slightly less than in 2007. (See page 15.)
- German suppliers report healthy demand: TUI Travel and Thomas Cook Group both reported healthy demand for summer travel products in Germany, with sales and bookings up over last year. However, both companies substantially reduced their capacity for the German market this year. (See "Thomas Cook and TUI reports positive," page 16.)
- Japanese travel agencies launch campaign to boost overseas travel: The Japan Association of Travel Agents recently launched a campaign to boost Japanese outbound travel, which has been declining since last year. In particular, the propensity for travel abroad has been declining among younger Japanese, because of less stable employment, a preference for spending money on electronics, and a waning interest in foreign travel. To spur growth in this market, Japanese travel agencies are developing packages targeted to younger travellers. (See page 19.)
- Korean consumer confidence plummets to seven-year low: Weakening economic conditions and rising inflation caused Korean consumer confidence to fall to a seven-year low in the second quarter of 2008, according to the Bank of Korea. Consumers offered a negative assessment of current living conditions because of rising prices and stagnant job growth, and were very pessimistic about the economic outlook. (See page 20.)

- Beijing Olympic Games to curb outbound travel this summer: Chinese outbound travel is expected to decrease sharply between June and August because of the Beijing Olympic Games, according to a recent survey. Most Chinese residents are enthusiastic about the games and will want to either attend them or stay home and watch them on television. However, outbound travel is expected to resume in full force after the games are over, peaking in October during the National Day holiday. (See page 22.)
- Australian travel suppliers report healthy demand for outbound travel: Two major travel companies in Australia, Wotif.com and Flight Centre Ltd., recently said they expect significant growth in profits this year, bolstered by healthy demand for outbound travel. Flight Centre said it was not suffering the way other retailers were from the effects of waning consumer confidence and high oil prices. The Australian travel industry has benefited from the strong job market, the booming resources sector, the high value of the Australian dollar, and the availability of heavily discounted airfares. (See page 23.)

Tourism Leading Indicator Index - Summary Table

The Tourism Leading Indicator Index provides insights into the near-term outlook for the tourism industry, by tracking the progress of the economic and non-economic factors that affect travel demand from Canada's key tourism markets, including the domestic market.

The rating for each component of the index indicates how that component is expected to affect travel from the source market over the near term. The overall rating indicates the expected performance of the source market in the near term, relative to the same time period in the previous year.

Travel Market	Economic Factors		Non-Economic Factors		Overall Tourism Leading Indicator
	General Economic Trends	Price Competitiveness	Traveller Trends (to/within Canada)	Supplier Trends (to/within Canada)	For Travel to/within Canada
Domestic	↔	↓	↔	↔	0
U.S.	↓↓↓	↓↓↓	↓↓↓	↔	- -
U.K.	↔	↓↓↓	↔	↓↓↓	0
France	↑	↓	↑	↑↑	+
Germany	↑	↓↓↓	↔	↑	0
Mexico	↑	↓↓↓	↑↑	↑↑	+
Japan	↓	↔	↓↓↓	↓↓↓	-
South Korea	↑	↓↓↓	↔	↓↓↓	0
China	↑↑	↓↓↓	↑↑	↓	+
Australia	↔	↓↓↓	↑	↑↑	+

Ratings Key:**Economic Factors and Non-Economic Factors:**

Range from $\uparrow\uparrow\uparrow$ (significantly adds to demand) to $\downarrow\downarrow\downarrow$ (significantly impedes demand).
 \leftrightarrow represents neutral effect on demand.

Overall Tourism Leading Indicator:

Ranges from $+++$ (significantly improving) to $---$ (significantly deteriorating). **0** represents no change.

Full details about the index for each market begin on page 9. For more information about the methodology used to construct the index, please refer to the Appendix of this report.

Tourism Overview - North America (Canada and the United States)

Leisure Travellers

Canadian summer travel intentions gearing down: The sticker shock of rising pump prices and the growing impact of fuel costs on household budgets are having a significant impact on Canadian travel plans, according to the latest Canadian Travel Intentions Survey by The Conference Board of Canada. Only 52.7 per cent of the Canadians polled in June 2008 said they were planning a leisure trip between May and September 2008, down from 68.9 per cent a year earlier. The latest survey result is also a significant decline from the previous survey in March 2008, when 62 per cent planned to take a summer trip. Vacation plans for all destinations registered a substantial decline, but the largest relative drop in vacation intentions appeared to be for overseas travel.

Table 1: Summer (May to September) Vacation Intentions (per cent of Canadians polled)

	May 2007	June 2008
Summer Vacation Intentions (All Destinations)	68.9	52.7
Canada	49.4	39.0
United States	9.5	7.5
Other international	8.5	5.3
Do not know/refused	1.5	0.9

Source: The Conference Board of Canada.

Travel demand in Canada has been gearing down since the beginning of this year, in large part because of skyrocketing gas prices. The recent slowdown in the Canadian economy combined with the dire news about economic conditions south of the border has also fuelled concerns. As a result, Canadians appear to be travelling closer to home and watching their spending more closely.

The Conference Board's Index of Consumer Confidence tumbled in May and June 2008 to its lowest level since December 2001, when the index switched to a monthly reading. There has been a sharp decline in confidence with respect to household finances, in general, and major purchases, in particular.

When asked in June if now is a good time to buy a big-ticket item, only 32.6 per cent of respondents agreed, down 13.2 percentage points from the April survey.

U.S. vacation intentions continue to weaken: U.S. travel intentions fell significantly in June, dropping below the 30-year low hit in April, according to the latest Consumer Confidence Survey report by The Conference Board, Inc. in the United States. Preliminary results showed that in June 2008, 35.8 per cent of U.S. consumers polled said they planned to take a vacation within the next six months, down from 39.6 per cent in the April poll. Results are adjusted to account for seasonal fluctuations in travel demand.

U.S. consumer confidence continued to weaken in June, falling to dismally low levels. The Consumer Confidence Index declined to 50.4 in June (1985 = 100), a decrease of 7.7 points from May. Consumer sentiment about present economic conditions continued to weaken, and the expectations index dropped to an all-time low. According to the Conference Board, the bleak results suggest the U.S. economy remains stuck in low gear.

Dim outlook for U.S. travel volumes: The Travel Industry Association (TIA) forecast a slight decline in U.S. leisure trips this summer. Travel volumes between June and August 2008 are expected to fall by 1 to 1.5 per cent compared with the same period in 2008.

The American Automobile Association (AAA) recently predicted that 1.3 per cent fewer Americans would travel over the July 4 holiday this year than last year. This was the first time in 10 years that travel volumes over the Independence Day holiday were expected to fall. AAA noted that in addition to higher fuel prices, travellers are facing a 13 per cent increase in airfares and 12 per cent rise in car rental rates this year.

On the other hand, AAA expects a moderate increase in U.S. international travel this summer. A forecast by AAA and Global Insight suggests U.S. outbound trips between June and August 2008 will increase 2.6 per cent over last year. Unfortunately, a slight drop in trips to Canada (-0.8%) is expected.

U.S. domestic trips in 2008 will increase by a modest 0.3 per cent over 2007, according to a forecast by Global Insight and D.K. Shifflet. The firms believe the pace of growth in the second half of 2008 will be bolstered slightly by Americans spending at least part of their tax rebate on travel.

However, the study also indicates that rising costs are spurring a shift in spending patterns: some travellers are choosing domestic destinations over outbound ones, trading down in their choice of hotels, reducing spending on shopping and entertainment while travelling, and visiting destinations closer to home. Looking ahead, the forecast suggests conditions will deteriorate further in 2009, with domestic trips falling slightly (-0.4%) for the first time since 2003.

Escalating gas prices putting the brakes on U.S. auto travel: A growing number of recent studies indicate that many Americans are cutting back on travel this summer because of escalating gasoline prices and concerns about the economy.

- Only 33 per cent of the Americans polled in April by Ipsos Reid on behalf of Access America said they were planning a summer vacation this year, a decline of 7 percentage points from a year earlier. Of those taking a vacation, nearly half (48%) reported that economic uncertainties were causing them to scale back their vacation plans. Among those not travelling, higher gasoline prices and a general lack of affordability were the two most cited reasons for staying home. In addition, 88 per cent of Americans said they were frustrated with the price of gasoline.
- The annual Great American Road Trip Survey by Rand McNally revealed that 66 per cent of U.S. travellers polled had changed their summer travel plans because of rising fuel prices. Most of those changing their plans said they would take shorter trips, but 10 per cent of this group said they had cancelled their travel plans altogether.

- A study by TIA and YPartnership reported that nearly 60 per cent of the Americans polled in April who had plans for a leisure trip by automobile this summer said higher fuel costs will not cause them to change their travel plans. However, this suggests that more than 40 per cent of those who had planned a road trip said they would shorten or cancel it. The study also reported that 16 per cent of those taking an auto trip this summer planned to use an expected tax rebate to help fund their trips.
- A June survey by Reuters and Zogby International revealed that soaring gas prices were causing 39 per cent of the Americans polled to reconsider their summer vacation plans.

In addition, the latest Traveler Sentiment Index by TIA and YPartnership reflected an "anxious mood," according to the index press release. The index fell to 85.7 in April, a drop of 7.9 points from February. The firm said the decline was driven primarily by changing perceptions of the affordability of travel, as gasoline prices and airfares continue to climb.

Business Travellers

Corporate air travel demand weakening: North American airlines have been experiencing a decline in international passengers travelling in premium classes, suggesting that business travel trends are softening, according to the International Air Transport Association (IATA). Passenger numbers in business class and first class were down by 8.5 per cent in March, year-over-year, among IATA-member airlines in North America. In the first quarter of 2008, premium traffic was down by 5.2 per cent from the previous year. IATA attributed the decline to the sharp slowdown in financial sector activity and the weakening U.S. economy.

In May, UBS released a survey that indicated 42 per cent of companies polled said they were reducing their spending on air travel this year, according to Business Travel News. This was a substantial increase from the previous poll in October 2007, when 26 per cent reported cutbacks in air travel spending. However, in the May survey, 34 per cent of companies said they were still intending to increase their spending on air travel this year.

A recent study by the Association of Corporate Travel Executives revealed that rising fares combined with the growing inconvenience of air travel were prompting many companies to seek travel alternatives when possible. Of the travel buyers polled, 49 per cent reported a reduction in air travel this year. Respondents are also expecting a "dramatic increase" in requests for travel alternatives such as remote conferencing.

U.S. business trips declining: A recent forecast by Global Insight and D.K. Shifflet suggested that U.S. domestic business travel volumes would fall by 0.8 per cent and 0.4 per cent in the second and third quarters of 2008, year-over-year. The report stated that U.S. business travel demand is under rising pressure from corporate cost-cutting and the broader availability of alternatives to business travel, such as web meetings and conference calls.

Airlines

Canadian demand holding up, but not for long: Although air travel demand appears to be holding steady heading into the busy summer season, these trends are not expected to last for long. Soaring jet fuel prices are forcing airlines to pass higher fuel costs on to consumers through higher ticket prices. But because many tickets for summer travel were purchased before the increases went into effect, the full impact of climbing airfares is not expected to begin affecting demand until summer is over.

Air Canada and WestJet both introduced fuel surcharges to their tickets in May to help them cope with increasing fuel costs. The fees range from \$20 to \$45 each way, depending on the length of the flight. On two other occasions, Air Canada had attempted to set its fees even higher, but those increases did not stick. Air Canada said it expected higher ticket prices to slow the growth of demand in the second half of

this year, once the summer season is over.

In June, Air Canada announced it would scale back its fall and winter capacity by 7 per cent and cut up to 2,000 jobs to reduce operational costs. Domestic capacity will shrink by 2 per cent, while transborder U.S. and international routes are reduced by 13 per cent and 7 per cent, respectively. The airline estimates it will pay \$1 billion more for jet fuel in 2008 than it did in 2007. Air Canada also said it spent an average of \$230 on fuel per round-trip passenger, up from \$146 in 2007 and \$110 in 2004.

Latest performance figures reflect steady domestic demand: Air Canada posted a net loss of \$288 million in the first quarter of 2008, down from the \$34 million loss reported a year earlier. A number of factors hurt the airline's profitability over the quarter, but one of the most pressing issues was higher fuel costs, which increased \$130 million over the same quarter of 2007. However, demand was strong enough during the first quarter that Air Canada was able to raise fares to help offset higher fuel costs.

In May, Air Canada's system-wide passenger traffic (measured in revenue passenger miles), including mainline and regional operations combined, grew 4.5 per cent over the previous year. Total capacity expanded by 4 per cent, and the airline flew its planes an average of 83.2 per cent full. Traffic on domestic routes grew 4.1 per cent, while traffic on transborder U.S. flights dropped 8.5 per cent. International traffic jumped 8.8 per cent, with a substantial increase on "Latin American and other" routes (43%).

WestJet posted a net profit of \$52.5 million in the first quarter of 2008, a 75.9 per cent increase over the same quarter of 2007. The airline said the resiliency of the Canadian economy, the strength of the Canadian dollar and a shift in capacity to winter sun destinations had all contributed to its improved profitability, and helped the airline cope with a sharp increase in fuel costs. WestJet expanded its capacity by 17.9 per cent in the first quarter, year-over-year, and said it would grow another 20 per cent during the second quarter.

Table 2. Airline Revenue Passenger Miles (RPMs) and Capacity - May 2008

Airline	RPMs (in millions) May 2008	RPM change 2008 vs. 2007	Capacity 2008 vs. 2007
Air Canada mainline (includes Jetz & Tier 3)	3,956	+5.4%	+4.7%
Air Canada Regional (Jazz)	349	+5.4%	+2.6%
WestJet	1,129	+19.3%	+20.1%

Traditional and low-cost airline models converging: Traditional and low-cost business models in the global airline industry are converging, resulting in a new kind of "hybrid" carrier, according to a recent study by Sabre Airline Solutions. An analysis of 123 self-described low-cost carriers revealed that more than half had either evolved into a full-service airline (7%) or had blended the business models of low-cost carriers and full-service carriers to create a hybrid model. Only 41 per cent of airlines describing themselves as low-cost had retained the characteristics of a true low-cost business model, such as point-to-point routes, single aircraft types, and simple fare structures. North American carriers that now fit the hybrid model, according to the study, include WestJet, Southwest Airlines, and JetBlue.

U.S. airline industry in crisis: High fuel prices and a downturn in the U.S. economy are creating crisis conditions for the U.S. airline industry, according to industry analysts. The Air Transport Association (ATA) recently described the sharp rise in jet fuel this year as "unprecedented" and "devastating," exacerbated by the decline in the value of the U.S. dollar. It warned that high fuel prices could lead to a US\$10 billion loss for the U.S. airline industry this year, which is close to the record losses sustained in 2002.

To cope with rising fuel costs, U.S. airlines are raising fares dramatically, slashing domestic capacity, downsizing their operations, and adding fuel surcharges and baggage fees. A recent analysis by BestFare.com reported in USA Today showed that fares for July travel had doubled or tripled on many U.S. routes over last year. In June, American Airlines began charging economy passengers US\$15 to check their first piece of luggage for travel in the U.S. and Canada, a move that was quickly followed by United Airlines and U.S. Airways.

Yet demand for summer air travel appears to have weakened only slightly, as many tickets were purchased before fares were hiked. ATA forecast a decline of just 1.3 per cent in air passengers on U.S. airlines between the Memorial Day and Labour Day holidays, mainly because of the slowdown in the U.S. economy.

However, once the summer comes to an end, demand is expected to plummet. Several major U.S. carriers announced plans for double-digit capacity reductions in the fourth quarter. Many analysts believe higher fuel costs will push more U.S. airlines closer to bankruptcy. Some have also said that U.S. domestic air capacity will need to shrink at least 20 per cent to reduce competition enough for airfare increases to stick.

Hôtels

Canadian daily rates and revenues continue to climb: Steady demand for Canadian accommodations combined with slower growth in available hotel rooms continues to bolster growth in daily room rates and revenues. The latest National Market Report by PKF Consulting reveals that average daily rates in Canada rose 5.4 per cent in April 2008, year-over-year. Occupancy edged up 2.4 percentage points, and revenues per available room (RevPAR) jumped 9.7 per cent. Year-to-date, occupancy was down slightly (0.3%) from the first four months of 2007, but daily rates and revenues were ahead by 4.6 per cent and 4.1 per cent, respectively.

Demand for Canadian accommodations expanded 2.9 per cent between January and April 2008 compared with the same period of 2007, according to the latest Canadian Lodging Outlook by HVS International. Hotel room supply for the same period increased only 1.6 per cent.

However, there are signs that demand growth for accommodations is slowing down, according to the feedback from lodging industry leaders at the Best Western Leisure Travel Summit in June. Although the outlook for the summer travel season is still positive overall, summit participants expect travellers to be more price sensitive and stay closer to home this year. Some participants have already noticed a trend of shorter stays at their hotels.

U.S. lodging industry seeing softer demand for leisure and corporate travel: There are clear indications of softening demand in both leisure and corporate segments of the U.S. lodging industry. Average U.S. occupancy decreased 2.5 per cent in May compared with a year earlier, according to Smith Travel Research, Inc. (STR). Although average daily rates increased 3.7 per cent, nationwide RevPAR edged up only 1.1 per cent. Marriott International and Starwood Capital Group, two of the largest U.S. hotel chains, reported at an industry conference that they are bracing themselves for a downturn. Starwood expects these challenging market conditions to continue for up to 18 months.

Travel agents and other suppliers

Domestic spending drives tourism growth: Tourism spending in Canada rose 1.3 per cent in the first quarter of 2008 compared with the previous quarter, according to the latest National Tourism Indicators report by Statistics Canada. The increase was driven by a 2.3 per cent rise in spending by Canadian residents and a slight increase in spending by overseas visitors (0.8%). However, spending by U.S. residents continued to decline, resulting in a 1.9 per cent fall in tourism spending by non-Canadians.

Transat reports steady demand: Transat A.T. Inc. posted a net profit of \$40.1 million in its second quarter ended April 30, 2008, down from the \$53.8 million net profit reported a year earlier. The profit reduction was attributed to an investment loss, as Transat noted that its revenues for the quarter had increased 18 per cent. Demand remained firm over the winter, and bookings and prices for the summer season were up over last year. However, the company anticipates lower margins over the next two quarters because of significantly higher jet fuel costs.

Travelocity seeing strong growth in U.S. outbound trips: Travelocity recently reported it expects an increase in U.S. bookings for international travel this summer, although not for traditional destinations, according to USA Today. The online travel agency reported that as of May, summer bookings to countries in the eurozone were about 15 per cent lower than last year, mainly because travellers were choosing destinations where their currency could go further. In contrast, bookings to eastern European destinations that do not use the euro were up about 16 per cent. The company has also seen a significant increase in summer bookings to the Caribbean (15%) and Mexico (47%). It noted that the strong increase in U.S. passport holders over the past year has helped fuel outbound travel trends.

Tourism Leading Indicator Index

Because of the constantly evolving nature of today's travel environment, it is increasingly important to be able to anticipate fluctuations in travel demand, in order to make better business decisions. The Tourism Leading Indicator Index provides insights into the near-term outlook for the Canadian tourism industry, by tracking the progress of the economic and non-economic factors that affect travel demand.

The rating for each component of the index indicates how that component is expected to affect travel from the source market over the near term. Meanwhile, the overall rating indicates the expected performance of the source market in the near term, relative to the same time period in the previous year.

Ratings Key:

Economic Factors and Non-Economic Factors:

Range from **↑↑↑** (significantly adds to demand) to **↓↓↓** (significantly impedes demand).
↔ represents neutral effect on demand.

Overall Tourism Leading Indicator:

Ranges from **+++** (significantly improving) to **---** (significantly deteriorating). **0** represents no change.

For more information on the specific weighting and methodology used to produce the index, please refer to the Tourism Leading Indicator Index - Methodology section at the end of this report.

Domestic Travel

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (Domestic)	Supplier Trends (Domestic)	
↔ (↔)	↓ (↓)	↔ (↑)	↔ (↑)	0

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Canadian economy contracted by 0.2 per cent in March, resulting in a first-quarter contraction of 0.1 per cent. Widespread weakness in export-sensitive industries in the latter half of 2007 spilled into the first quarter, led by broad cutbacks in automotive production.
- Inflation reared its head for the first time in five months in April in the wake of higher gasoline prices and reduced pricing incentives on new motor vehicles. The all-items Consumer Price Index (CPI) rose 1.7 per cent between April 2007 and 2008, up from the 1.4 per cent increase in March. The Bank of Canada's core CPI, used for inflation targeting, rose 1.5 per cent in April.
- Employment growth has been scant of late. After two months of small gains, employment growth paused in May, and the unemployment rate remained unchanged at 6.1 per cent. Since April, only 8,400 jobs have been created in the Canadian economy. Despite the slower employment growth in recent months, the participation rate held steady at a record-high 68 per cent in May.
- Canadian consumer confidence has been shaken. The Conference Board's Index of Consumer Confidence tumbled in May, falling seven points to 85.8 (2002 = 100), and then fell again in June to 79.6. These levels are the lowest since the index switched to a monthly basis in December 2001. They reflect Canadian's concerns about the stagnating economy as well as rising gasoline prices.

Traveller and Supplier Trends:

- Domestic air travel continues to expand, albeit at a more modest pace. Compared with the previous year, the number of enplaned and deplaned passengers at Canada's top 30 airports grew by 4 per cent in April. Between January and April, enplaned and deplaned passengers grew 5.6 per cent. Air Canada's announcement of a 2 per cent cut to domestic air capacity is not expected to affect passenger growth until the end of the year.
- The rise in Canadian hotel occupancy rates is coming to an end. According to PKF Consulting, year-to-

date occupancy rates in April fell by 0.3 percentage points over the previous year. The declines are widespread across the country, with only Manitoba, Saskatchewan, and Newfoundland registering positive growth. Still, average daily rates continue to rise, driven largely by strong gains in Western Canada. Between January and April, Canada's average daily rate was 4.6 per cent higher than the same period last year.

- High gasoline prices are expected to cut into Canadians' summer travel plans. As gasoline nears \$1.50 per litre, Canadians are expected to economize on automobile travel. The introduction of B.C.'s carbon tax on July 1, 2008, has raised gasoline prices even further in that province, contributing to the reduction in automobile travel.
- Canadian travel outside the country continues to be fuelled by the high value of the Canadian dollar. Overnight travel to the United States increased 12.9 per cent between January and April; meanwhile, growth to other international destinations reached 11.4 per cent.

Overall, the Tourism Leading Indicator for domestic travel suggests the market is not expected to grow and may even decline slightly over the near term. Growth prospects through the fall are marginal at best.

United States (to Canada)

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends (to Canada)	Supplier Trends (U.S. to Canada)	
↓↓↓ (↓↓↓)	↓↓↓ (↓↓↓)	↓↓↓ (↓↓↓)	↔ (↓)	--

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The U.S. economy stalled in the first half of 2008 and, with significant headwinds from the housing sector, only a mild recovery is anticipated in the second half of the year. The Conference Board's leading economic index increased 0.1 per cent in April, after staying unchanged in March. During the six-month span through May, the leading index decreased 0.7 per cent, with only three out of ten components advancing. The index now stands at 102.1 (2004 = 100).
- Canada's price competitiveness for U.S. travellers continues to deteriorate, hampered by the strong Canadian dollar as well as rising transportation and accommodation costs.

Traveller and Supplier Trends:

- U.S. travel to Canada continues to decline. Between January and April, automobile travel to Canada of one or more nights declined by 6.2 per cent compared with the previous year. During the same period, same-day automobile travel declined by a staggering 21.8 per cent. The ongoing decline in U.S. travel to Canada reflects the continued economic weakness in the U.S. as well as the high value of the Canadian dollar and rising gasoline prices.
- Air capacity between Canada and the United States was expected to increase by 5.3 per cent in the third quarter of 2008. However, given Air Canada's recent announcement of a reduction in transborder U.S. air services later this year, growth in the third quarter will likely be less.

Overall, the Tourism Leading Indicator for U.S. travel to Canada suggests U.S. visits will continue to decline over the near term.

Tourism Overview - International

United Kingdom - Current Tourism Trends

British Airways uncertain about outlook for long-haul travel: British Airways' passenger traffic (measured in revenue passenger kilometres-RPKs) fell 0.7 per cent in May 2008 from the previous year. Premium traffic volumes (business and first class) slipped 0.9 per cent, and non-premium traffic (economy) declined by 0.6 per cent. Domestic and short-haul traffic within Europe was up by 4.6 per cent, but traffic to the Americas was down by 2.5 per cent. Looking ahead, the airline warned that its long-haul economy traffic, already weak, may be further depressed by growing economic pressures, although premium long-haul traffic was holding strong. The airline also believes that short-haul weekend breaks could be vulnerable to an economic downturn.

In June, British Airways bumped up its fuel surcharge for the second time in two months to help offset rising jet fuel prices. The surcharge for long-haul flights of less than nine hours will increase to GBP78 each way (C\$158) while the surcharge for flights over nine hours will increase to GBP109 each way. In its latest annual report, the airline said it expected revenues for its current fiscal year to increase by about 4 per cent, boosted in part by the higher fuel surcharge.

British Airways' transatlantic subsidiary, OpenSkies, began operating on June 19, with a daily flight between Paris and New York. The airline plans to increase its fleet to two aircraft later this year, and then to six aircraft by the end of 2009.

The British Airport Authority's seven U.K. airports handled 12.7 million passengers in May 2008, a 0.5 per cent drop from a year earlier. The decline was mainly because of a 5.3 per cent fall in domestic passengers and a 2.5 per cent decrease in passengers on European charters. Passenger numbers on North Atlantic routes edged up 0.5 per cent, while traffic on other long-haul routes grew 1.2 per cent. Passenger numbers on scheduled routes to Europe rose 0.9 per cent.

Table 3. Percentage change in passengers carried

Carrier	May 2008 vs. May 2007
British Airways	-0.6%
Ryanair	+22%
easyJet	+15.9%

U.K. travel suppliers report robust demand: May 2008 trading statements from the major travel companies in the U.K. indicate there is strong demand for summer bookings, especially for medium- and long-haul destinations. Capacity in the market has been cut back substantially since last year, allowing prices to rise. Companies are also reporting much lower volumes of product left to sell heading into the summer season, something that is expected to reduce the level of last-minute discounting compared with last year.

- TUI Travel reported that its summer bookings were slightly behind what they were last year, partly because of significant capacity reductions, although sales were up 8 per cent, year-over-year. The company believes travellers are not giving up their main summer vacation, but may reduce additional trips because of growing concerns over economic conditions. The company has also not seen any signs of "trading down," that is, more modest spending on summer holidays.

- Thomas Cook Group reported that its U.K. summer booking sales were strong, describing consumer demand as robust. Looking ahead, the company said its outlook for the upcoming winter season was "encouraging," with bookings tracking 4 per cent ahead of last year. It also noted that weaker economic conditions did not appear to be affecting its sales.
- Co-op Travel, the largest independent travel agency in the U.K., reported that its sales for summer travel were 7 per cent ahead of last year at the same time, with no signs of demand letting up. The company also noted that summer vacations were an "integral part of family life" in the U.K., and "not to be given up lightly, no matter what the financial restraints." The company also noted that market prices for the winter season were down from the previous year, stimulating high growth in advance bookings to many destinations.

Travel services was the only subsector of the U.K. consumer services sector to achieve volume growth in recent months, according to a May 2008 survey by the Confederation of British Industry, a business lobby group. Overall demand for leisure and personal care services fell significantly during the previous three months, as consumers reined in their spending on leisure and entertainment activities. Yet travel was one of the few exceptions, with travel companies reporting healthy demand for holidays, fuelled by consumers seeking a "well-earned break" from their financial stresses.

Credit crunch may discourage some travel spending: Despite optimistic reports from travel suppliers, a number of recent surveys suggest tighter economic conditions are prompting some U.K. travellers to rethink their travel plans this summer:

- A survey of nearly 2,200 U.K. consumers by Savebuckets.com, a comparison shopping website, and YouGov suggested that deteriorating financial conditions have prompted 20 per cent of respondents to forgo a vacation this year, and another 12 per cent to stay in the U.K. for their summer holiday. Nearly 60 per cent of respondents said they were worse off financially now than they were a year ago.
- The credit crunch is causing a growing number of British travellers to reduce the duration of their summer holidays this year, according to a recent survey by ebookers.com. Only 27 per cent of respondents said they were planning a two-week getaway this summer, while 22 per cent intended to limit their break to less than a week. The company noted that this trend is fuelling demand for city-break destinations, such as New York, Los Angeles, and Paris.

However, a significant number of British consumers are prepared to cut back on other areas of spending to fund their summer holidays, according to a recent survey by American Express Travellers Cheques. Of those polled, 38 per cent said they would cut back on other non-essentials-such as new clothes, dinners out, and pub nights-to save money for travelling.

Another survey, released by TripAdvisor in June 2008, suggested that U.K. travellers are also less deterred by high fuel costs than other travellers. Of the British travellers polled, 21 per cent said higher fuel prices would influence their travel plans this summer, compared with 41 per cent of travellers worldwide.

Popularity of cruise holidays soars: The European Cruise Council recently reported that 1.3 million British people took a cruise in 2007, an 11 per cent increase over 2006. The U.K. is the largest source market for cruise passengers in Europe. The Council's chairman said the popularity of cruising among Europeans is growing faster than anyone in the industry expected.

United Kingdom - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↔ (↔)	↓↓↓ (↓↓↓)	↔ (↔)	↓↓↓ (↓)	0

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for the U.K. declined moderately in April, the sixth consecutive monthly decline. The six-month change in the leading index stands at ?2.2 per cent (about a ?4.3 per cent annual rate) in the six months up to April. Consumer confidence has also fallen sharply in recent months, as weakness in the leading indicators has been very widespread.
- The Canadian dollar appreciated 5.8 per cent against the British pound between June 2007 and June 2008. As a result, Canada's price competitiveness continues to erode, although the pace of erosion has recently slowed. In the third quarter, the cost of a seven-night stay in Canada for U.K. travellers, including airfare, hotels, meals, and other items, is expected to increase 9.3 per cent, year-over-year. Meanwhile, the average cost of a similar trip to competitive destinations (United States, China, South Africa, sub-Saharan Africa, Brazil, and Mexico) is expected to increase just 1.7 per cent.

Traveller and Supplier Trends:

- The number of U.K. visitors to Canada declined by 1.1 per cent in April. In general, growth from the U.K. has been weak this year, with year-to-date arrivals up just 0.4 per cent in April. At the same time, overall U.K. outbound travel fell by 3.5 per cent compared with the previous year, although visits to North America rose 2.7 per cent, according to the U.K. Office for National Statistics.
- Looking ahead, direct air capacity on scheduled flights from the U.K. to Canada is expected to decline 9.1 per cent during the third quarter of 2008, following a 5.1 per cent reduction during the second quarter. Most of the cuts are expected in British Columbia and Quebec.

The continued deterioration in Canada's price competitiveness combined with softer economic conditions and a decline in direct air capacity suggests no growth or even a slight decline in U.K. travel to Canada over the near term.

France - Current Tourism Trends

Public holidays boost air passenger traffic in May: Air France-KLM reported that its passenger traffic (measured in revenue passenger kilometres) grew 6 per cent in May 2008, year-over-year. The airline said a number of public holidays fell in the first part of the month, helping to stimulate growth in leisure travel. Traffic on North and South American routes combined rose 6.5 per cent during the period, and traffic on domestic and European routes increased 3.9 per cent.

In May, Air France-KLM warned that soaring oil prices and weaker growth in the global economy would challenge the airline's profitability this year. In the year ending March 31, 2008, Air France-KLM's net profit dropped to 748 million euros (C\$1.2 billion), a 16 per cent decrease from the previous year. The airline blamed "the crisis in the financial sector" and higher oil prices for the decline.

Passenger numbers at airports serving Paris grew 6.7 per cent to 7.7 million in May 2008, according to the

latest statement by the airports' administrative authority, Aéroports de Paris. Domestic passenger numbers continued to decrease, falling 1.8 per cent from a year earlier, but passengers on European routes jumped 6.9 per cent. Passengers on routes serving North and South America climbed 9 per cent.

Mixed reports from travel suppliers in France: May trading updates from TUI Travel and Thomas Cook Group offered a mixed view of how the French market is performing. TUI reported that its French business for summer 2008 is down from last year, with a 10 per cent decline in booking volumes and a 6 per cent decrease in sales. TUI attributed the declines to a reduction in discounting by its Nouvelles Frontières brand; however, it noted that its margins had improved from last year.

On the other hand, Thomas Cook said its French business was strong, with "increasing bookings and average selling prices." However, its overall sales volumes were much lower in France than in other European markets.

French e-commerce trends holding strong: Growth in e-commerce in France and the rest of continental Europe is not slowing down as quickly as it is in the U.K. and the United States, according to a recent report by eMarketer.com. FEVAD, a French trade group, forecast a 30 per cent increase in business-to-consumer e-commerce in France this year over 2007. This rate is slightly lower than last year's growth of 35 per cent, but still a healthy increase.

Another survey by Médiamétrie revealed that nearly 66 per cent of French Internet users polled in the first quarter of 2008 said they had made an online purchase, up from 60 per cent polled a year earlier.

French consumers also have a high opinion of online purchases. A survey by Benchmark Group and BrandAlley, a shopping website, revealed that 85 per cent of French respondents believed online retailers offered better prices and discounts than traditional retailers.

France - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↑ (↑)	↓ (↓)	↑ (↑)	↑↑ (↑↑)	+

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for France declined slightly in April, the sixth consecutive monthly decline. Stock prices and production growth contributed to the economy, but unemployment claims and poor industrial orders more than offset those gains. Weakness among the leading indicators remains widespread, suggesting that economic growth will be more moderate in the near term.
- The Canadian dollar depreciated 9.6 per cent against the euro between June 2007 and June 2008; however, it has remained relatively stable since January. The average cost of a seven-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase an estimated 2.1 per cent for French travellers during the third quarter of 2008. Meanwhile, the average cost of a similar trip to competitive destinations (United States, China, sub-Saharan Africa, and Brazil) is expected to drop by 2.5 per cent.

Traveller and Supplier Trends:

- French visits to Canada continue to trend upward. In April, visits from France increased 9.9 per cent, year-over-year, and year-to-date growth was 3.7 per cent. Meanwhile, the U.S. Office of Travel and Tourism Industries (OTTI) reported that French travel to the U.S. increased 16.1 per cent during the first quarter of 2008.
- Looking ahead, direct air capacity between France and Canada will continue to improve. Direct air capacity from France to Canada is expected to increase by 15.1 per cent in the third quarter, with the lion's share of the increase going to Alberta and Quebec.

A weakening economy and ongoing price competitiveness issues will likely moderate growth in French outbound travel. However, French travel trends remain positive and, as a result, the leading indicator suggest that growth in French travel to Canada will be solid over the near term.

Germany - Current Tourism Trends

Air passenger volumes grow solidly in May: In May 2008, passenger traffic (measured in RPKs) among Lufthansa passenger airlines grew 4.9 per cent compared with a year earlier. Traffic on the company's European network surged by 27.7 per cent, and traffic on routes to North and South America grew 27.2 per cent, although these two year-over-year comparisons were not adjusted to account for the acquisition of Swiss International Airlines.

In June, Lufthansa raised its fuel surcharge for the second time in two months. The fee was raised by 3 euros on domestic and European routes to 24 euros each way, and increased by 10 euros on long-haul flights to 92 euros each way. Although the airline is seeing some signs of weakening demand in some markets, it does not plan to cut capacity. To stay competitive, the airline reports it is adjusting fares to account for demand fluctuations, according to Air Transport World.

In May 2008, passenger numbers at Frankfurt Airport increased 1.6 per cent, year-over-year, to 4.7 million, a record high for that month. In the first five months of the year, passenger numbers were up 2.8 per cent. The airport's finance chief was quoted by Reuters as saying that the weakness in the U.S. economy was not hurting the airport's passenger traffic.

Thomas Cook and TUI reports positive: Recent trading updates from TUI Travel and Thomas Cook Group suggested that demand for summer travel products in Germany has been healthy overall, although both companies substantially reduced their capacity this year. TUI reported in May that its German sales for summer travel products were up 4 per cent over last year, and that bookings were ahead by 1 per cent. Thomas Cook reported similar trends.

Germany - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↑(↔)	↓↓↓ (↓↓↓)	↔ (↔)	↑ (↑↑)	0

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Germany decreased modestly in April. Stock prices

and consumer confidence were very positive, but not enough to offset other negative indicators. Since October, the leading index has dropped by 3.4 per cent, and weakness among the leading indicators has been very widespread. Germany posted the strongest gross domestic product (GDP) growth in over 10 years during the first quarter; however, the index results suggest that rate of growth is not likely to persist in the near term.

- Canada's price competitiveness for German travellers continues to erode. During the third quarter, the average cost of a seven-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase by 2.4 per cent for German visitors, year-over-year. Meanwhile, the average cost of a similar trip to competitive destinations (U.S., China, South Africa, Brazil, and Mexico) is expected to decrease 6.4 per cent.

Traveller and Supplier Trends:

- Visits from Germany to Canada continue fluctuate. Visits declined by 4.8 per cent in March but increased by 0.6 per cent in April, year-over-year. Between January and April, German arrivals declined by 1.9 per cent. Meanwhile, the OTTI reported that German visits to the U.S. increased 19.4 per cent in the first quarter of 2008.
- In the third quarter of 2008, direct air capacity between Germany and Canada is scheduled to expand by a solid 6.1 per cent, with most of the increase going to Ontario.

The growth potential of the German market remains modest at best. Economic conditions are poised to weaken, and the decline in price competitiveness is weighing heavily on the index. Overall, the tourism leading indicator suggests the weak performance of Canada's German travel market will continue over the near term.

Mexico - Current Tourism Trends

Canada holds wide appeal for Mexican market: Canada holds a competitive advantage in a number of areas for the Mexican travel market, according to a recent Mexico Consumer & Travel Trade Research Study by the Canadian Tourism Commission. Mexicans are interested in clean, green, and safe travel destinations, which they associate with Canada. In addition, Mexicans do not need a tourist visa to visit Canada, and do need one to visit the United States, one of Canada's main competitors for this market. Some of the Canadian destinations Mexicans are most interested in visiting include Niagara Falls, the Canadian Rockies, and city centres in Quebec, Ontario, and British Columbia.

The study also revealed that Mexican travellers are interested in upscale shopping. They tend to prefer visiting cosmopolitan centres that offer cultural and historical activities and exciting nightlife, although they also enjoy participating in a wide range of travel experiences, including skiing.

Mexican consumer confidence drops to four-year low in May: Mexico's consumer confidence index for May fell to the lowest level since November 2003, according to INEGI, Mexico's national statistics agency. The index slipped to 94.2 in May, declining 3.6 points from the previous month. All five components of the index fell, measuring consumer sentiment about personal finances and prospects, national economic conditions and prospects, and the purchase of big-ticket items.

A Dow Jones report said analysts anticipated the drop in consumer confidence, because of moderating economic growth and rising inflation in Mexico; however, the drop was larger than expected. In particular, escalating food prices have been a growing concern. Analysts expect these unfavourable economic trends to continue over the short term.

Mexico - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↑ (↑)	↓↓ (↓)	↑↑ (↑↑)	↑↑ (↑)	+

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board of Canada's leading economic index for Mexico increased sharply in April, driven by high oil prices and inventories. The leading index rose 2.8 per cent in the six months up to April, suggesting that the economy should keep expanding over the near term, and may even pick up in pace.
- Compared to the Mexican peso, the value of the Canadian dollar was the same in June 2008 as it was in June 2007. However, the dollar has lost some ground since January, depreciating by 5.9 per cent compared to the peso. The average cost of a seven-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase by 10.7 per cent during the third quarter for Mexican travellers, year-over-year. The cost of a similar trip to competitive destinations (U.S., Spain, and Italy) is expected to increase by an average of 9 per cent.

Traveller and Supplier Trends:

- Travel growth from the Mexican market has been stellar this year. Despite some weakness reported in April, possibly the result of the Easter holidays occurring in March this year rather than April, the January and April figures still indicate Mexican arrivals being 15.5 per cent ahead of last year. Mexicans are also travelling more to the United States. According to the OTTI, Mexican arrivals to the U.S. interior (beyond the 40 kilometre U.S. border zone) increased 17.9 per cent during the first quarter of 2008.
- Air capacity between Canada and Mexico continues to expand at a rapid pace and will therefore continue to foster growth in travel between the two countries. Direct air capacity between Mexico and Canada is expected to grow by 20.3 per cent in the third quarter.

Decreased price competitiveness is starting to weigh on Mexican travel to Canada. But other positive indicators, when combined, continue to point the Tourism Leading Indicator Index towards growth. Still, the index suggests growth will be more measured in the third quarter than it was last year.

Japan - Current Tourism Trends

Japanese outbound travel demand continues to weaken: Japan Airlines reported that its international passenger traffic (measured in revenue passenger kilometres) declined 4.9 per cent in April 2008, year-over-year. Traffic was down on almost all international routes, except South Korea. Transpacific traffic fell 5.1 per cent during the month.

The number of passengers travelling through Narita International Airport in Tokyo in April 2008 was down 4 per cent from the previous year, according to the airport's latest traffic statistics. The number of Japanese residents travelling on international flights declined by 7 per cent. Meanwhile, the number of domestic passengers slipped 5 per cent. Between January and April, Japanese passengers on international flights were down by 6 per cent compared with the first four months of 2007.

Steady increases in fuel surcharges are expected to further weaken outbound travel demand in Japan this summer, according to a recent article by Nikkei Report. Japan Airlines Corp. has already increased its fuel

surcharge for long-distance overseas flights to destinations such as the United States and Europe by 18,000 yen (C\$172) this year. All travel agencies in Japan are reporting declines in sales of summer packages this year because of rising travel prices. Analysts are also concerned that travel demand will be hurt by weakening economic conditions and lower bonus payments at many Japanese companies.

Japanese travel agencies launch campaign to boost overseas travel: The Japan Association of Travel Agents launched a "Visit World" campaign in April, in an effort to boost the number of Japanese outbound trips to 20 million by 2010. In 2007, outbound trips fell to 17.3 million, a 1.4 per cent decline from 2006, and the first annual decline since 2003.

Agencies say a decrease in the number of younger Japanese outbound travellers is a main reason for this trend: in 2000, 23 per cent of trips abroad were made by travellers in their 20s, but by 2007, that figure dropped to 16 per cent. Younger Japanese are travelling less because of less stable employment situations, a tendency to spend their money on electronics such as mobile phones and personal computers, and a general lack of enthusiasm for foreign travel. In addition to the Visit World campaign, Japan's major travel agencies are developing packages targeted to younger travellers, according to Nikkei Report. For example, JTB Corp. designed a series of overseas budget tours for students, and H.I.S. Co. is promoting Asian tours that include volunteer activities. Both agencies have reported strong growth in sales for these products.

Japan - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↓ (↓↓)	↔ (↓↓)	↓↓ (↓↓)	↓↓ (↓)	- -

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Japan declined slightly in April. Between October 2007 and April 2008, the leading index fell 1.1 per cent, which was significantly less than the index had declined in the six months previous. Still, the weaknesses among the leading indicators continued to be more widespread than the strengths. Thus, despite the strong growth in real GDP at the beginning of the year, the index suggests economic growth is likely to be slow in the near term.
- The Canadian dollar depreciated 8.7 per cent against the Japanese yen between June 2007 and June 2008. Since the beginning of this year, the dollar has lost 1.3 per cent of its value against the yen, a trend that is boosting Canada's price competitiveness. During the third quarter, the average cost of a 10-night stay in Canada for Japanese travellers (including airfare, hotels, meals, and other items) is expected to decrease by 5.1 per cent compared with last year. Meanwhile, the average cost of travel to competing destinations is expected to increase 2.7 per cent.

Traveller and Supplier Trends:

- Visits from Japan continue to decline dramatically. In April, Japanese visits fell by 27.5 per cent, the 25th month of consecutive declines. From January to April, visits were down by 21.6 per cent compared with a year earlier. OTTI figures show that Japanese travel to the U.S. is also on a declining trend, although visits decreased only 2.6 per cent in the first quarter of 2008.

- The ongoing decline in Japanese arrivals is causing airlines to cut capacity. Direct air capacity between Japan and Canada is expected to shrink by 9.3 per cent in the third quarter.

Travel and supplier trends continue to weigh down the Tourism Leading Indicator Index for Japan. And, while the economy seems to be turning the corner, economic conditions remain fairly poor, thus reinforcing that trend. As a result, the Tourism Leading Indicator Index continues to point towards a decline in arrivals from the Japanese market over the near term.

South Korea - Current Tourism Trends

Fuel costs and a weaker currency hurt Korean Air's profits: Soaring fuel costs and a decline in the value of the Korean won hampered Korean Air's profitability in the first quarter of 2008. The airline posted a net loss of 325.5 billion won (C\$320 million) for the quarter, a stark drop from the net profit of 130.8 billion won posted in the same quarter of 2007. The airline said it is also struggling with increasing competitive pressures from the Asia's low-cost carrier market. A Reuters news item reported the airline is seeking government approval to raise its fuel surcharge and base airfares to help offset rising fuel costs, even though higher airfares combined with the weaker won may hurt travel demand.

Air Transport World reported that Korean Air is looking for opportunities to expand its market share in North America—a market that has been very profitable for the airline—by strengthening its ties with some U.S. airlines. Korean Air plans to expand its presence in the Pacific Northwest this year through a codeshare partnership with Alaska Airlines. It also plans to increase traffic to Las Vegas and Dallas in 2009.

Overseas credit card spending soars in Q1: Overseas credit card spending by Koreans jumped 30.2 per cent in the first quarter of 2008, year-over-year, to US\$1.8 billion, according to the Bank of Korea. The increase was fuelled by an increase in the number of Koreans travelling abroad during the Lunar New Year holidays this year. Rising travel costs and the popularization of credit card use were two other reasons given for the jump. Per capita credit card spending by overseas travellers rose to US\$766 in the first quarter of 2008, up from US\$712 a year earlier.

Korean consumer confidence plummets to seven-year low: Weakening economic conditions and rising inflation caused Korean consumer confidence to fall to a seven-year low in the second quarter of 2008, according to the Bank of Korea's consumer survey index, reported in Yonhap News. The index plummeted to 86 in the second quarter, down from 105 in the previous quarter. A reading of 100 indicates a balance between optimism and pessimism.

Consumers offered a negative assessment of current living conditions because of rising prices and stagnant job growth, according to the central bank. Moreover, the index measuring consumers' outlook for the economy plunged to 52 in the second quarter, down from 96 in the first quarter.

South Korea - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↑ (↑)	↓↓↓ (↓↓↓)	↔ (↑)	↓↓↓ (↓↓↓)	0

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Korea increased slightly in April, offsetting an equally small decline in March. Still, the leading index fell about 2.2 per cent between October 2007 and April 2008, down from a growth rate of 5.1 per cent in the previous six months. Weakness among the leading indicators has become more widespread in the last six months as the pace of decline has accelerated. As a result, the leading index suggests slow to moderate economic growth is likely to continue in the near term.
- The Canadian dollar appreciated 16.5 per cent against the Korean won between June 2007 and June 2008. Since January, the dollar has appreciated 8.8 per cent against the won, worsening Canada's price competitiveness. For South Korean travellers, the average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase 15.6 per cent during the third quarter of 2008 compared with last year. Fortunately for Canada, the average cost of a similar trip to competitive destinations (U.S., U.K., France, Germany, and Australia) is expected to increase by 19.8 per cent, thus aiding in Canada's price competitiveness.

Traveller and Supplier Trends:

- Korean visits to Canada increased a slight 0.3 per cent in April. But January-to-April arrivals were down 1.1 per cent from the previous year. At the same time, travel from South Korea to the U.S. increased 5 per cent during the first quarter of 2008, according to OTTI statistics.
- Direct air capacity from South Korea to Canada is expected to decline by 7.8 per cent during the third quarter.

While Canada's price competitiveness has improved, it remains well behind other countries, notably the United States. Positive economic trends are offsetting price competitiveness issues, but they are not enough to push the index into positive territory. As a result, the Tourism Leading Indicator Index for South Korea suggests there will be no growth from this market over the near term.

China - Current Tourism Trends

Growth in international travel continues to slow: The number of passengers through Beijing Capital International Airport fell 2.9 per cent in May 2008, year-over-year, according to the airport's latest operational statistics. International passenger numbers increased 5.8 per cent, while domestic passengers slipped 5.5 per cent during the month. Between January and May, international passenger numbers were ahead by 12.1 per cent, and domestic passenger numbers were down by 2.9 per cent from a year earlier.

Chinese airlines seek to mitigate impact of higher fuel costs: In June, the Chinese government raised the domestic price of jet fuel by more than 25 per cent to account for higher oil prices, which will increase the airline industry's annual operating costs by billions of yuan. The fuel increase, combined with declining domestic demand for air travel, is expected to hamper the industry's profitability in the second half of this year. Fuel surcharges on international routes were raised earlier this year, and airlines are now seeking government approval to increase the surcharge on domestic flights. A number of airlines are also planning to upgrade their fleets to new, more fuel-efficient aircraft.

High fuel prices have prompted China Southern Airlines and China Eastern Airlines to cut capacity on less-profitable international routes to reduce operational costs. China Southern has reduced the number of available seats on 20 routes where demand has been weak, including flights to Los Angeles, Paris, and Singapore. China Eastern is planning to cut back its international capacity more gradually, but noted that higher fuel costs were causing some international flights, such as Shanghai to New York, to operate at a loss. A Reuters news item noted that a lack of global networks and inadequate cost controls were compounding the negative effects of higher fuel costs.

Beijing Olympic Games to curb outbound travel this summer: Chinese outbound travel is expected to decrease sharply between June and August 2008 because of the Beijing Olympic Games, according to a survey by Asia Tourism Relations, a Chinese tourism marketing firm. Most Chinese residents have been enthusiastic about the games and will want to either attend them or stay home and watch them on television. However, the firm expects outbound travel to resume in full force after the games are over, peaking in October during the National Day holiday.

Asia Tourism Relations also expects the appreciation of the Chinese yuan against the U.S. dollar to fuel outbound travel demand to the United States and countries where the currency is pegged to the U.S. dollar. This includes Hong Kong but not countries in the eurozone, Australia, or Canada. Travel agents in China have reported strong growth in bookings to countries with a more favourable exchange rate.

The China National Tourism Administration (CNTA) and the U.S. Department of Commerce recently announced that the United States received its first Chinese leisure travel group on June 17, 2008, led by CNTA Chairman Shao Qiwei. The United States was awarded approved destination status by China in December 2007.

China - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↑↑ (↑↑)	↓↓ (↓)	↑↑ (↑↑)	↓(↑)	+

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Chinese economy continues to be on pace for another year of double-digit growth. Strong growth in construction and fixed-asset investment is driving domestic demand as part of the reconstruction effort following the earthquake in Sichuan. However, inflation continues to run very high and will likely lead to higher interest rates and slower economic growth next year. Real GDP growth is expected to reach 10 per cent in 2008.
- The Canadian dollar depreciated 5.3 per cent against the Chinese renminbi between June 2007 and June 2008. For Chinese travellers, the average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase 12.3 per cent during the third quarter of 2008 compared with last year. Meanwhile, the average cost of a similar trip to competitive destinations (U.S., U.K., France, Germany, and Australia) is expected to increase by only 1.6 per cent.

Traveller and Supplier Trends:

- The number of Chinese visitors to Canada continues to grow at a very strong pace. In April, Chinese arrivals increased 8.9 per cent compared with last year, bringing year-to-date growth in arrivals that month to 13.9 per cent. Meanwhile, the OTTI reported that travel from China (including Hong Kong) to the U.S. grew by an astonishing 25.2 per cent during the first quarter of 2008.
- Direct air capacity to Canada is expected to decline by 4.6 per cent in the third quarter of this year.

Overall, the Tourism Leading Indicator Index for China suggests that growth in arrivals from this market will continue over the near term.

Australia - Current Tourism Trends

Qantas announces cutback to offset rising fuel costs: Qantas reported a 1.7 per cent system-wide increase in passenger traffic (measured in RPKs) in April, compared with the previous year. Traffic on mainline routes with Qantas International dropped 3.4 per cent, while traffic on Jetstar International, its low-cost subsidiary, surged by 41.4 per cent.

To help offset the airline's rising jet fuel costs, Qantas raised its international and domestic fares in June for the second time in two months. International fares went up by about 4 per cent, and domestic fares increased about 3 per cent. In May, Qantas raised its domestic and international fares by 3 and 3.5 per cent, respectively. The airline also announced it would reduce its system-wide capacity by about 5 per cent. On international routes, significant cuts were planned for services to Japan and Southeast Asia.

Australian travel suppliers report healthy demand for outbound travel: Two major travel companies in Australia, Wotif.com and Flight Centre Ltd., recently reported they expect significant growth in net profits this year, bolstered by healthy demand for outbound travel, according to the Herald Sun, an Australian newspaper. Both companies say they are on target to achieve a 30 to 40 per cent increase in profits over 2007. The chief financial officer of Flight Centre was quoted as saying his company was not suffering the way other retailers in Australia were from the effects of waning consumer confidence and high oil prices. He said the travel industry in Australia was benefiting from a strong job market, the booming resources sector, the high value of the Australian dollar, and the availability of heavily discounted airfares.

Australian cruise market growing quickly: The cruise market in Australia is expanding rapidly, according to statistics released by the International Cruise Council Australasia, reported by travelmole.com. The number of Australians taking ocean cruises in 2007 rose 14 per cent over 2006, to nearly 252,000. In contrast, the cruise market grew 11 per cent in the U.K. and only 4.6 per cent in the United States last year.

The most popular cruises were those in Australian, New Zealand, and South Pacific waters, making up 61 per cent of cruise trips last year. Asia was the next most popular cruise destination (9% of cruises), followed by Alaska/Canada (8%), and Europe (8%).

Australia - Tourism Leading Indicator Index

Economic		Non-Economic		Overall
General Economic Trend	Price Competitiveness	Traveller Trends	Supplier Trends	
↔ (↑)	↓↓ (↓)	↑ (↑↑)	↑↑ (↑↑)	+

Note: the bracketed figures are from the previous (March 2008) Tourism Intelligence Bulletin.

Economic Trends:

- The Conference Board's leading economic index for Australia increased in April, following three consecutive monthly declines. Between October and April, the growth rate of the leading index was sharply reduced, reaching only 0.1 per cent, compared with 2.8 per cent in the previous six months. The slowdown in real GDP growth during the first quarter and the recent behaviour of the leading index suggests the economy will continue to grow at a more moderate pace in the near term.
- The Canadian dollar depreciated 7.2 per cent against the Australian dollar between June 2007 and June

2008; however, this has not helped Canada's price competitiveness with other destinations competing for Australian travellers. For Australians, the average cost of a 10-night stay in Canada, including airfare, hotels, meals, and other items, is expected to increase 3.4 per cent during the third quarter of 2008 compared with last year. Meanwhile, the average cost of a similar trip to competitive destinations is expected to decline by 3.4 per cent.

Traveller and Supplier Trends:

- Australian arrivals in Canada continue to grow at a healthy pace. In April, visits to Canada increased by 5.1 per cent over the previous year; between January and April, arrivals were up 10.4 per cent. This growth compares positively with data from the United States. According to the OTTI, travel from Australia to the U.S. increased by 6.8 per cent during the first quarter of 2008.
- Air capacity between Canada and Australia is booming. Third quarter air capacity (including one stop) is expected to increase by 86 per cent over the previous year, thanks to the introduction of direct seats to British Columbia.

Overall, the Tourism Leading Indicator Index for Australia suggests continued growth from the Australian market over the near term.

Tourism Leading Indicator Index - Methodology

The Tourism Leading Indicator Index provides tourism stakeholders with insights into the near-term outlook for the Canadian tourism industry, by tracking the progress of the economic and non-economic factors that affect travel demand.

To derive the overall Tourism Leading Indicator Index, the various component indices representing economic and non-economic motivating factors are weighted to reflect their relative importance in the travel decision-making process. The ratings used to assess the component indices of the overall index identify the degree to which each component provides added stimulus or, alternatively, provides an added impediment to visiting Canada over the near term. The specific rating gradients used to assess the various component indices of the Tourism Leading Indicator are as follows:

Ratings Used for the Component Indices of the Tourism Leading Indicator

Symbol	Interpretation
↑↑↑	Significant stimulus to demand
↑↑	Moderate stimulus to demand
↑	Slight stimulus to demand
↔	No (or little) added stimulus to demand
↓	Slight impediment to demand
↓↓	Moderate impediment to demand
↓↓↓	Significant impediment to demand

Meanwhile, the overall index rating obtained for each source market indicates the expected performance of the source market in the near term, relative to the same time period in the previous year. The specific rating gradients used to assess the Tourism Leading Indicator Index are as follows:

Ratings Used for the Tourism Leading Indicator Index

Symbol	Interpretation
+++	Significant improvement
++	Moderate improvement
+	Slight improvement
0	No change (or little change)
-	Slight deterioration
--	Moderate deterioration
---	Significant deterioration

Leading indicators have been established for Canada's domestic travel market and for each of Canada's key international markets: United States, United Kingdom, France, Germany, Mexico, Japan, South Korea, China and Australia.

Methodology used to develop the Tourism Leading Indicator for each source market:

Economic Factors

- A) **General Economic Trend:** The specific assessment of the general economic conditions for each source travel market is derived from the degree to which economic conditions are changing (becoming more favourable or less favourable). It also includes a general assessment of economic conditions, such as GDP growth, employment, and changes in the U.S. Conference Board's leading economic index. Ultimately, the rating provided should represent the degree of positive push (stimulus) or negative pull (impediment) affecting decisions to visit Canada over the near term due to economic conditions in each source market.
- B) **Price Competitiveness:** Exchange rates between markets play a significant role in price competitiveness. Other factors considered in the assessment include gas prices, fuel surcharges, security-related charges or other costs that affect Canada's price competitiveness compared with other competing destinations.

Non-Economic Factors

- A) **Traveller Trends:** The assessment of traveller trends to and within Canada considers the source market's level of consumer confidence, regulations, current travel trends and travel intentions.
- B) **Supplier Trends:** Supplier trends indicate the degree to which suppliers are increasing (or decreasing) their product offerings to facilitate travel from the source market to and within Canada. The result of changes in supply can increase (or decrease) growth potential. A key indicator for this component is the availability of direct air capacity to Canada from each source market.

The following table identifies the weighting used for each component of the Tourism Leading Indicator for each source market.

Travel Market	Economic		Non-Economic	
	General Economic Trend	Price Competitiveness	Traveller Trends (to/within Canada)	Supplier Trends (to/within Canada)
Domestic & U.S.	40%	10%	40%	10%
All others	30%	10%	50%	10%

A higher weight on economic factors is given to domestic and U.S. travel because a higher percentage of the travel that occurs in these markets is for non-leisure purposes, which tend to be more closely linked to economic motivations. In addition, the prevalence of shorter, more frequent automobile travel also tends to be more highly correlated with economic factors. On the other hand, the longer average distance and trip duration of overseas trips suggests that non-economic factors tend to play a bigger part in the decision-making process for these trips.